

# **Metropolitan Transportation Commission**

**Reports on Federal Awards in Accordance  
with OMB Circular A-133**

**June 30, 2011**

**Component Unit**

**Metropolitan Transportation Commission  
MTC Service Authority for Freeways  
and Expressways**

**EIN**

**94-1749911**

**94-3196169**

**Metropolitan Transportation Commission**  
**Reports on Federal Award Programs in Accordance with OMB Circular A-133**  
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**Report of Independent Auditors on Internal Control Over  
Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards**

To the Commissioners of the  
Metropolitan Transportation Commission:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Metropolitan Transportation Commission ("MTC") as of and for the year ended June 30, 2011, which collectively comprise MTC's basic financial statements and have issued our report thereon dated October 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered MTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MTC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MTC in a separate letter dated October 3, 2011.

This report is intended solely for the information and use of the Commission, management, others within the entity, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

October 3, 2011



**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133**

To the Commissioners of the  
Metropolitan Transportation Commission:

**Compliance**

We have audited the compliance of the Metropolitan Transportation Commission ("MTC") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. MTC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of MTC's management. Our responsibility is to express an opinion on MTC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MTC's compliance with those requirements.

In our opinion, MTC complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-01.

**Internal Control Over Compliance**

Management of MTC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MTC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of MTC's internal control over compliance.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of MTC as of and for the year ended June 30, 2011, and have issued our report thereon dated October 3, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise MTC's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

MTC's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit MTC's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Commission, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

October 3, 2011

# Metropolitan Transportation Commission

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2011

#### Metropolitan Transportation Commission

Federal Grantor/Pass Through Grantor/ Program or Cluster Title/Grant Identifier Number	Federal CFDA Number	Identifier Number Assigned by Pass Through Entity	Federal Expenditures
Department of Transportation - Federal Highway Administration			
Highway Research and Development Program			
DTFH61-07-H-00024 (UPP)	20.200		\$ 1,324,403
STRDDL-6084(169)	20.200		21,390
Total Highway Research and Development			<u>1,345,793</u>
Pass Through from the California Department of Transportation			
FHWA Highway Planning and Construction Grants			
	20.205	04 OWPMTCM (FHWA)	7,221,859
	20.205	Partnership Rgl Blueprint	192,247
	20.205	VPPL-6084(133)	46,927
	20.205	HPLUL-6084(166)	176,474
	20.205	CMLN-6084 (126)	22,312
	20.205	CMLN-6084 (136)	342,426
	20.205	STPCML-6084(137)	1,479,789
	20.205	CMLN-6084 (132)	68,907
	20.205	CMLN-6084 (141)	441,222
	20.205	CMLN-6084 (147)	98,555
	20.205	CMLN-6084 (151)	789,936
	20.205	STPCML-6084(155)	2,139,626
	20.205	CMLN-6084 (164)	473,641
	20.205	CMLN-6084 (165)	770,064
	20.205	STPCML-6084(167)	5,500,000
	20.205	STPL-6084 (099)	333,161
	20.205	STPCML-6084(115)	127,374
	20.205	STPL-6084 (170)	200,000
	20.205	STPCML-6084(137)	785,878
	20.205	STPL-6084 (117)	180,962
	20.205	STPL-6084 (146)	3,055,572
	20.205	STPL-6084 (152)	8,956,999
	20.205	STPL-6084 (156)	352,325
	20.205	STPL-6084 (157)	1,662,471
	20.205	STPCML-6084(155)	7,295,066
	20.205	STPL-6084 (160)	893,009
	20.205	STPL-6084 (162)	88,531
	20.205	STPCML-6084(167)	3,463,721
	20.205	STPL-6084 (083)	7,164
	20.205	STPL-6084 (138)	321,405
Total Highway Planning and Construction			<u>47,487,623</u>

The accompanying notes are an integral part of this schedule.

**Metropolitan Transportation Commission**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

<b>Federal Grantor/Pass Through Grantor/ Program or Cluster Title/Grant Identifier Number</b>	<b>Federal CFDA Number</b>	<b>Identifier Number Assigned by Pass Through Entity</b>	<b>Federal Expenditures</b>
Department of Transportation - Federal Transit Administration			
Pass Through from the California Department of Transportation			
FTA Metropolitan Planning Grants	20.505	04 OWPMTCM (FTA 5303)	3,804,056
FTA State Planning and Research Grants	20.515	04 OWPMTCM (FTA 5304)	878,706
Transit Services Program Cluster			
FTA Job Access - Reverse Commute			
CA-37-X076-00 (JARC)	20.516		546,035
CA-37-X043-00 (JARC)	20.516		2,379
CA-37-X044-00 (JARC)	20.516		124,253
CA-37-X064-00 (JARC)	20.516		597
CA-37-X104-00 (Lifeline)	20.516		1,143,997
FTA New Freedom Program			
CA-57-X023-00 (New Freedom)	20.521		769,079
CA-57-X023-00 (New Freedom, Cycle 2)	20.521		798,882
CA-57-X050-00 (New Freedom, Cycle 3)	20.521		364,334
Total Transit Services Program Cluster			<u>3,749,556</u>
Federal Transit Cluster			
FTA Federal Transit - Formula Grants			
CA-90-Y555-00	20.507		219,380
Pass Through from Golden Gate Bridge District			
FTA Federal Transit - Formula Grants			
CA-90-Y401 (FTA)	20.507		7,696,941
CA-95-X058-00 (FTA)	20.507		2,146,935
CA-90-X024-00 (FTA)	20.507		5,145,614
Pass Through from San Francisco Municipal Transportation Authority			
FTA Federal Transit - Capital Investment Grants			
CA-03-0708 (FTA)	20.500		435,819
CA-05-0200 (FTA)	20.500		2,882,375
CA-05-0241 (FTA)	20.500		3,697,213
FTA Federal Transit - Formula Grants			
CA-90-Y348 (FTA)	20.507		2,044,907
CA-90-Y624 (FTA)	20.507		700,000
ARRA - FTA Federal Transit - Formula Grants			
CA-96-X014 (FTA)	20.507		327,301
Total Federal Transit Cluster			<u>25,296,485</u>
Department of Transportation - Federal Aviation Administration			
FAA Airport Improvement Program			
FAA 3-06-E404-01	20.106		136,915
FAA 3-06-E404-02	20.106		22,272
Total Airport Improvement Program			<u>159,187</u>
Total Expenditures of Federal Awards - MTC			<u>\$ 82,721,406</u>

The accompanying notes are an integral part of this schedule.



**Metropolitan Transportation Commission**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

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**Service Authority for Freeways and Expressways**

<b>Federal Grantor/Pass Through Grantor/ Program or Cluster Title/Grant Identifier Number</b>	<b>Federal CFDA Number</b>	<b>Identifier Number Assigned by Pass Through Entity</b>	<b>Federal Expenditures</b>
Department of Transportation - Federal Highway Administration: Pass Through from the California Department of Transportation FHWA Highway Planning and Construction Grants			
	20.205	CML-6084 (082)	\$ 463,761
	20.205	CML-6084 (139)	2,471,902
	20.205	CML-6160 (014)	1,486
	20.205	STPL-6160 (017)	4,022,239
	20.205	STPCML-6160 (018)	150,890
	20.205	STPCML-6160 (018)	18,946
Total Expenditures of Federal Awards - SAFE			<u>\$ 7,129,224</u>
Total Expenditures of Federal Awards			<u>\$ 89,850,630</u>

The accompanying notes are an integral part of this schedule.

# Metropolitan Transportation Commission

## Notes to Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2011

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#### 1. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all expenditures of federal awards of the Metropolitan Transportation Commission ("MTC"). MTC's reporting entity is defined in Note 1 to MTC's financial statements. The MTC Service Authority for Freeways & Expressways ("SAFE") is a blended component unit of MTC. The federal expenditures under MTC and the SAFE have been separately reported on the Schedule. Pass-through entity identifying numbers are presented where available.

The Schedule is presented using the modified accrual basis of accounting. MTC's financial statements are prepared on the accrual and modified accrual basis, which are describe in Note 1 of the notes to MTC's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in preparation of, the financial statements.

#### 2. Subrecipients

Of the federal expenditures in the Schedule, MTC provided the following amounts to subrecipients. MTC SAFE did not pass through any federal assistance to subrecipients.

CFDA Number	Program Description	Passed Through to Subrecipients
20.205	Highway Planning and Construction	\$ 14,938,410
20.500	Federal Transit - Capital Investment Grants	286,626
20.505	Metropolitan Planning Grants	242,555
20.507	Federal Transit - Formula Grants	1,337,024
20.515	State Planning and Research	878,706
20.516	Job Access - Reverse Commute	1,817,260
20.521	New Freedom	1,932,295
	Total Passed Through	<u>\$ 21,432,876</u>

**Metropolitan Transportation Commission**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Section I – Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ☐ yes ☒ no
  - Significant deficiency (ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

*Federal Awards*

Internal control over major programs:

- Material weakness (es) identified? ☐ yes ☒ no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ☒ yes ☐ no

Identification of major programs:

CFDA Number(s)

20.200

20.205

20.505

20.500 and 20.507

Name of Federal Program or Cluster

Highway Research and Development Program

Highway Planning and Construction

Federal Transit - Metropolitan Planning Grants

Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs: \$2,695,519

Auditee qualified as low-risk auditee? ☒ yes ☐ no

# **Metropolitan Transportation Commission**

## **Schedule of Findings and Questioned Costs**

### **Year Ended June 30, 2011**

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#### **Section II – Financial Statement Findings**

There were no financial statement findings for the year ended June 30, 2011

#### **Section III – Federal Award Findings and Questioned Costs**

**Item 11-01:** Subrecipient monitoring

**Questioned Costs:** No questioned costs.

**Federal Agency:** Federal Highway Administration (FHWA)

**CFDA Number and Title:** 20.205: Highway Planning and Construction

##### **Criteria**

Title 49 CFR 18.40 (a) requires that grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. OMB Circular A-133 para .400 (d) lists out the responsibilities of the pass-through entities, which include (4) Ensure subrecipients receiving \$500k or more in federal funding met audit requirements and (5) Issue management decision on audit findings within six months after receipt of the report and ensure the subrecipient takes appropriate action to remediate. OMB Circular A-133 para .405 includes guidelines for issuing the management decision letter.

##### **Condition**

Four subrecipients had findings raised in their A-133 audit reports for fiscal year 2010. While MTC was able to provide evidence of follow up with those subrecipients through email correspondence, this correspondence did not include making a statement as to whether MTC agreed that the corrective action taken by the subrecipient was appropriate to address the finding. For one sub recipient there was no response to the email correspondence and therefore MTC did not obtain an update on the progress of the corrective action plan throughout fiscal year 2011. In addition, for three of the subrecipients, formal management decision letters were issued by MTC, however these were issued more than 6 months after receipt of the subrecipients A-133 report and for the fourth subrecipient, this formal letter was not issued.

##### **Cause**

Management obtained the A-133 audit reports from the subrecipients, however, did not document management decisions that were applicable to the sub awards and did not consistently monitor the progress of implementing the corrective actions.

##### **Effect**

Failing to identify issues raised in the A-133 audit reports can lead to ineffective monitoring of subrecipient activities. Matters raised in the subrecipient A-133 audit reports that have a direct impact on the sub awards could lead to noncompliance and question costs that do not get corrected or resolved.

##### **Recommendation**

Although significant improvements have been made since the 2010 reporting period, we recommend a formal consistently applied process be implemented to ensure proper tracking of findings raised in the subrecipient A-133 reports. If relevant findings are identified, management decisions should be issued to the subrecipient in a consistent format to ensure that the subrecipient is aware of management's expectations for remediating the findings and that management is aware of the corrective actions taken by the subrecipient to prevent further noncompliance and agrees that the corrective actions are appropriate to address the finding. In addition, management should monitor the progress of implementing these corrective actions periodically throughout the year.

##### **Management's Views and Corrective Action Plan**

Following these findings are management's views and Corrective Action Plan.

# **Metropolitan Transportation Commission**

## **Summary Schedule of Prior Audit Findings**

### **Year Ended June 30, 2011**

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#### **Summary Schedule of Prior Audit Findings**

**Item 10-01:** Subrecipient monitoring

**Questioned Costs:** No questioned costs.

**Federal Agency:** Federal Highway Administration (FHWA)

**CFDA Number and Title:** 20.205: Highway Planning and Construction

#### **Criteria**

Title 49 CFR 18.40 (a) requires that grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. OMB Circular A-133 para .400 (d) lists out the responsibilities of the pass-through entities, which include (4) Ensure subrecipients receiving \$500k or more in federal funding met audit requirements and (5) Issue management decision on audit findings within six months after receipt of the report and ensure the subrecipient takes appropriate action to remediate. OMB Circular A-133 para .405 includes guidelines for issuing the management decision letter.

#### **Condition**

Two subrecipients had findings raised in their A-133 audit reports for fiscal year 2009. Management decisions were not issued to the subrecipients.

#### **Cause**

Management obtained the A-133 audit reports from the subrecipients, however, did not document management decisions that were applicable to the sub awards.

#### **Effect**

Failing to identify issues raised in the A-133 audit reports can lead to ineffective monitoring of subrecipient activities. Matters raised in the subrecipient A-133 audit reports that have a direct impact on the sub awards could lead to noncompliance and question costs that do not get corrected or resolved.

#### **Recommendation**

We recommend a process be implemented to ensure proper tracking of findings raised in the subrecipient A-133 reports. If relevant findings are identified, management decisions should be issued to the subrecipient to ensure that subrecipient is aware of management's expectations for remediating the findings and that management is aware of the corrective actions taken by the subrecipient to prevent further noncompliance.

#### **Management's Views and Corrective Action Plan**

MTC management concurs with the observations and recommendations regarding Sub Recipient Monitoring and implemented procedures prior to June 30, 2010 to correct the findings related to the two sub recipient reports issued in 2009, including documented management decisions related to the findings. Management has upgraded their sub recipient procedures to include management's follow-up with the sub recipient along with management's decision on the sub recipient's findings.

#### **Current Year Status**

Partially implemented. See current year finding 11-01.



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San Francisco Mayor's Appointee

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Deputy Executive Director, Policy

*Andrew B. Fremier*  
Deputy Executive Director, Operations

September 28, 2011

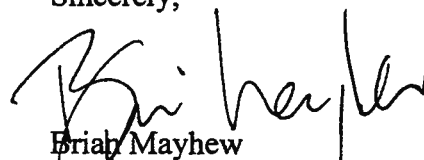
The management of MTC concurs with the finding No. 11-01, Sub Recipient Monitoring, as stated within this report. We present the following corrective action plan.

Procedures were implemented prior to June 30, 2011 to track receipt of subrecipient A-133 reports and findings raised in subrecipient A-133 reports. Additionally, communications with subrecipients regarding resolution of audit findings was made within 6 months of receipt of their reports.

We have developed a Management Decision letter template that complies with OMB Circular A-133 .400(d) and .405. This letter will be sent to subrecipients documenting our communications and providing a formal management decision on their corrective action plan. We will also follow up quarterly with subrecipients who have yet to implement their corrective action plan.

The contact person for this corrective action plan is Brian Mayhew. I can be reached at 510-817-5730.

Sincerely,

  
Brian Mayhew  
Chief Financial Officer